

STATE-OWNED ENTERPRISES AND ELITE CIRCULATION IN CHINA

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Executive Summary

1. Chinese state-owned enterprises (SOEs), in particular the 114 large central enterprises, have developed considerable autonomy in business operations and investment decisions and often behave like “independent kingdoms”. However, the Chinese Communist Party (CCP) controls them through a number of mechanisms, with the nomenklatura system as the most important.
2. The nomenklatura system has a list of 3,500 top positions in government and Party organizations at ministerial and vice-ministerial level, including presidents, Party secretaries, and board chairmen of China’s 53 largest SOEs.
3. These top executives are managed by the Central Organization Department (COD) and not appointed by company boards. The Party thus can move them around companies and between companies and government/Party organs through a cadre transfer system.
4. One fifth of China governors and vice governors have worked in one of China’s big SOEs. There are also many business group leaders moving into vice-ministerial and ministerial level positions as a result of cadre rotation. In some cases officials move back and forth between government and business.
5. Many business leaders have been elected to important Party fora such as the central committee. At the 18th Party Congress 17 corporate leaders were elected to the central committee, including six full members, while eight were elected from financial institutions, including three full members.
6. Since the 18th Party Congress four business executives with full membership of the central committee have moved into government and Party positions as vice ministers, ministers and deputy provincial Party secretary. The financial sector has also witnessed similar transfers, with the most salient development being an internal leadership reshuffle among bank CEOs.

7. Although large SOEs have developed considerable autonomy, the many rotations from business indicate that the Party is still in control of the state-owned industrial sector as well as major financial institutions.
8. The Party realizes that business leaders constitute an important talent pool of young, competent, and internationally oriented leaders. However, moving a successful business leader out of his job in the business sector to take up a purely government administrative position may not make good business sense.
9. The close linkages between Party, state, and big business inevitably form vested interests who are benefiting from career opportunities and pecuniary rewards from the existing arrangements. Therefore substantial SOE reform is bound to meet with opposition.